

NORTH AMERICAN DEVELOPMENT BANK



THE NEW LA ROSITA POWER PLANT IN MEXICALI, BC.



THE ALL-AMERICAN CANAL HYDRO-ELECTRIC PLANT NEAR ANDRADE, CA. AS A RESULT OF THE 2000 MANDATE EXPANSION, THE NADB CAN NOW FINANCE PROJECTS IN NEW SECTORS SUCH AS CLEAN AND EFFICIENT ENERGY.



North American Development Bank

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BACKGROUND

The North American Development Bank (NADB) is an international financial institution established and capitalized in equal parts by the United States and Mexico for the purpose of financing environmental infrastructure projects. All NADB-financed environmental projects must be certified by the Border Environment Cooperation Commission (BECC), be related to potable water supply, wastewater treatment or municipal solid waste management and be located within the border region.

The NADB's mission is to serve as a binational partner and catalyst in communities along the U.S.-Mexico border in order to enhance the affordability, financing, long-term development and effective operation of infrastructure that promotes a clean, healthy environment for the citizens of the region. As pioneer institutions in their field, the NADB and BECC are working to develop integrated, sustainable and fiscally responsible projects with broad community support in a framework of close cooperation and coordination between Mexico and the United States.

The U.S.-Mexico border region, in which the bank focuses its efforts, is defined in the Charter as the area within 100 kilometers (approximately 62 miles) north and south of the boundary between the United States and Mexico.

CAPITALIZATION

The authorized capital of NADB under the Charter totals US\$3 billion with equal commitments from the United States and Mexico. Each country has authorized the subscription of 150,000 shares of the bank's capital stock with a par value of US\$10,000 per share. Payments of capital by the two countries were initiated in 1994, with scheduled installments to be completed by September 30, 2006.

NADB CAPITAL STRUCTURE

Country	Paid-In Capital	Callable Capital	Total
United States	\$ 225,000,000	\$1,275,000,000	\$1,500,000,000
Mexico	225,000,000	1,275,000,000	1,500,000,000
Totals	\$ 450,000,000	\$2,550,000,000	\$3,000,000,000

Paid-In Capital and Callable Capital

Fifteen percent of the NADB's authorized capital (US\$450 million) is in the form of paid-in capital. Eighty-five percent of the NADB's authorized capital (US\$2.55 billion) is in the form of callable capital. To date, the NADB has received from the two countries a combined total of US\$348.750 million in paid-in capital and US\$1.976 billion in callable capital, representing 77.5% of its total subscribed capital.

Paid-in capital consists of actual cash funds contributed to the NADB by the two governments. Paid-in capital, once contributed, is actually held by the NADB and invested in short- to medium-term, high quality, fixed-income securities.

Callable capital does not represent actual cash funds contributed to the NADB by the two governments. It is composed of funds that are pledged to be provided to the NADB from the two countries only if required to meet the bank's obligations on borrowings of funds for inclusion in its capital resources.

Capital Utilization

Under the Charter, ninety percent of the NADB's authorized capital may be used to finance environmental infrastructure projects in the border region. Ten percent of the capital subscribed by each country has been allocated to finance community adjustment and investment throughout the United States and Mexico in support of the purposes of NAFTA.

ORGANIZATION

Board of Directors

The NADB has a binational Board of Directors consisting of six members: three from the United States and three from Mexico. The chairmanship of the board alternates between U.S. and Mexican representatives every year. The current chairman of the board is the United States Secretary of the Treasury.

United States

Secretary of the Treasury

Secretary of State

Administrator of the Environmental Protection Agency

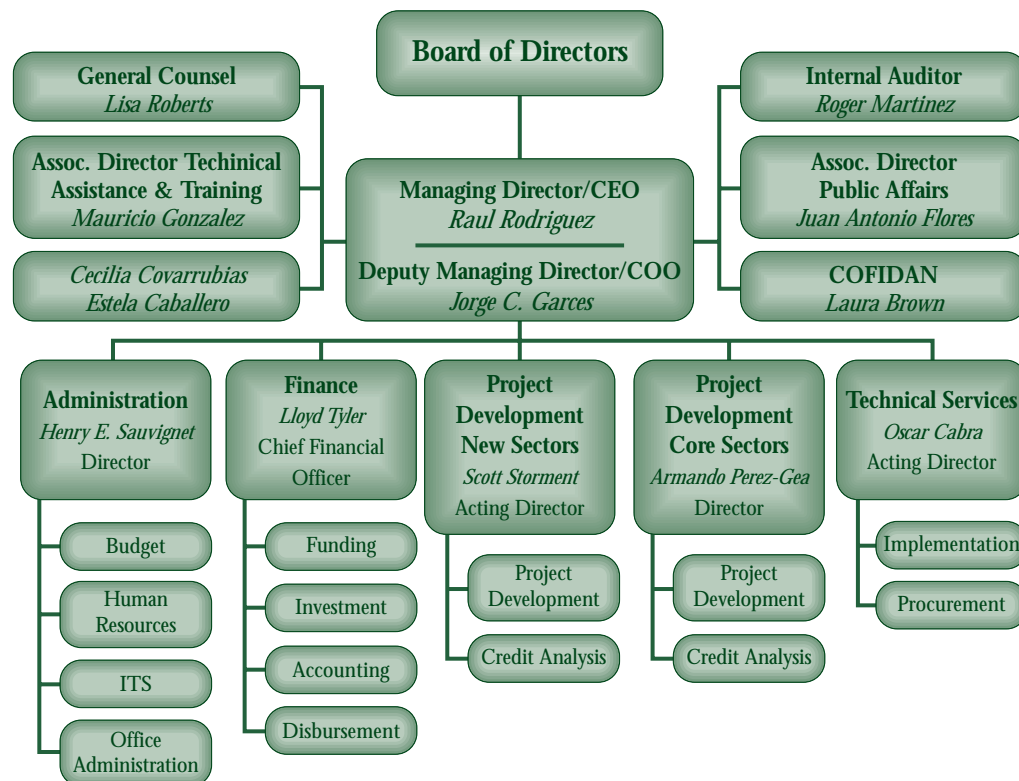
Mexico

Secretary of Finance and Public Credit

Secretary of Economy

Secretary of Social Development

All powers of the bank are vested in the Board of Directors, which determines bank policy within the framework of the Charter and bylaws, and approves all loan and credit proposals. All decisions of the Board require the assent of at least two representatives of each country. The Board holds an annual meeting and such other meetings as are necessary to the operations of the bank. A general diagram of the organizational structure of the bank is shown below.



LOAN & GUARANTY PROGRAM

The NADB loan program provides direct financing for infrastructure projects with a demonstrable and reasonable assurance of repayment when private sector financing is not available on reasonable terms and conditions on a timely basis. In other words, NADB loans are intended to fill financing gaps not covered by other funding sources.

The NADB guaranty program is designed to encourage the participation of private and public sector lenders in financing infrastructure projects by providing partial repayment protection against commercial risks for loans.

Under its charter, NADB is authorized to make or guarantee loans to both public and private sector borrowers, operating within the United States and Mexico. Any project, regardless of community size or project cost, is eligible for financing and other forms of assistance from NADB, if it meets all three of the following eligibility criteria:

- The project must be located within 100 kilometers (62 miles) of the international border between the United States and Mexico.
- The project must be certified by the Border Environment Cooperation Commission (BECC).
- The project must be an environmental infrastructure project involving:
 - potable water,
 - water pollution,
 - wastewater treatment,
 - municipal solid waste, or
 - related areas

In November 2000, the NADB Board of Directors approved a resolution authorizing the bank to finance other types of projects within its current charter, while maintaining water, wastewater, and municipal solid waste as a priority. Projects that may qualify as environmental infrastructure under the charter include, but are not limited to, air quality improvement, public transportation, clean and efficient energy, and municipal planning, development and water management. In addition, the Board defined "related matters" to include: industrial and hazardous waste projects, water conservation projects, water and wastewater hookups for housing, and recycling and waste reduction projects.

Through its Loan and Guaranty Program, NADB is prepared to finance a portion of the capital costs of a project. Eligible capital costs may include the acquisition of land and buildings; site preparation and development; system design, construction, rehabilitation, and improvements; and the procurement of necessary machinery and equipment.

For additional information regarding evaluation criteria, type of financing available, financing terms, market rate loans and other program policies and operational procedures, please visit NADB's website and click on "Programs and Services".

BORDER ENVIRONMENT INFRASTRUCTURE FUND (BEIF)

In an effort to make projects affordable, especially for the smallest and poorest communities, the NADB established the Border Environment Infrastructure Fund (BEIF). This fund is designed to receive and administer grants from other institutions that can be combined with loans and guaranties to facilitate project financing.

The United States Environmental Protection Agency (USEPA) has made grant contributions in the amount of US\$439 million. NADB administers these funds to support USEPA-approved projects. The eligibility criteria and potential uses for USEPA funds administered through the BEIF are outlined in the USEPA Section of this report.

The purpose of the BEIF is to make environmental infrastructure projects affordable for communities throughout the U.S.-Mexico border region by combining grant funds with loans or guaranties for projects that would otherwise be financially unfeasible.

A primary objective of the BEIF is to assist communities in the transition from highly subsidized projects to self-sustaining projects supported locally by user fees and other revenue. As a result, to access BEIF funds, projects sponsors must demonstrate local "buy-in" with the commitment of current revenues, capital reserves and/or debt at the municipal or utility level.

Only water and wastewater infrastructure projects located within 100 kilometers (62 miles) of the U.S.-Mexico border will be considered for funding. Eligibility is based on a set of project selection criteria as well as an assessment of a community's financial need (see USEPA Section of this report).

Priority will be given to projects with maximum funding from other sources and where BEIF funding is necessary to complete project financing. Preference will also be given to projects likely to have the most impact and ultimately benefit both sides of the border.

Assessment of Financial Need

BEIF funds are targeted at communities that could not otherwise afford to develop and execute necessary infrastructure. For each project, the NADB performs an analysis of the community's need for grant funds, its capacity to assume debt and, most importantly, the ability of its residents to afford the costs associated with the project and the system as a whole. Taking these factors into consideration, the NADB structures a financial package that ensures completion of a functional system at a cost affordable to the community. The amount of each award is based on this analysis and the availability of other sources of funding.

In order to determine project affordability, the NADB has developed an affordability protocol. The protocol explains the analysis utilized to apply USEPA affordability guidelines to water and wastewater projects on the US side of the border. The protocol, which is included in the USEPA section of this report, identifies eligibility criteria for transition and construction assistance.

For additional information regarding the BEIF, please visit NADB's website and click on "Programs and Services".

INSTITUTIONAL DEVELOPMENT PROGRAM (IDP)

The IDP assists public utilities in achieving effective and efficient operation of their water, wastewater treatment, municipal solid waste, and related services by reinforcing their institutional capacities, thus creating a stronger financial foundation that will support the development of future infrastructure.

The IDP is designed to complement and work with other development programs, including the Technical Assistance Program of the BECC.

Based on program objectives, special preference will be given to public utilities with viable projects that have failed to gain broader support due to institutional deficiencies. Priority will be given, in the following order, to eligible utilities that have:

1. a BECC-certified project and need institutional strengthening to facilitate financing; or
2. a Step I BECC certification application on file and need institutional strengthening to facilitate certification and financing; or
3. preliminary projects targeted at small, low-income communities and need institutional strengthening; or
4. a need for institutional strengthening, but do not have a specific project; or
5. a need for institutional strengthening to enhance privatization efforts.

Specific project priority will be reviewed in conjunction and cooperation with federal, state, and local authorities as well as with the BECC.

The IDP is a two-phase program. During the initial phase, the NADB can provide personnel and resources for an institutional development needs assessment, if necessary, of the eligible utility at no cost to the community. In the second phase, a plan of action based on the assessment results will be devised to address the needs of the utility. Resources may also be allocated to improve information and administrative systems, provide training and enhance other areas that have an impact on the financial structure of the utility.

In order to request IDP assistance, a project sponsor must complete and submit an IDP information sheet. This application can be obtained by visiting NADB's website and clicking on "Programs and Services".

PROJECT DEVELOPMENT PROGRAM (PDP)

The primary purpose of this technical assistance program is to help utilities in border communities with the planning and design of environmental infrastructure projects that will be submitted to the BECC for certification and to the NADB for financing.

To ensure efficient and coordinated development of these projects, this program is implemented in close consultation with the BECC.

PDP grant assistance may be used to help fund design and related studies needed for the proper development of infrastructure projects in any of the environmental sectors in which the NADB operates, including water conservation. Eligible studies and activities under this program include, but are not limited to:

- final design
- environmental assessments
- feasibility studies
- financial analyses
- preparation of BECC Step II documents
- master plans
- acility plans
- needs assessments
- geological studies
- solid waste production analyses

Public participation activities necessary for BECC certification may also be eligible for funding.

Grants may be awarded in amounts up to US\$200,000 per project. In the case of regional projects involving two or more communities, the grant limit per project may be increased to US\$300,000. Up to 50 percent of the cost of the development the project sponsor must contribute studies either in cash or in kind. The specific percentage will be determined by the NADB in each case based on the project sponsor's financial circumstances.

The project sponsor must submit a written request to the NADB for PDP assistance, describing the environmental infrastructure project under development and the type of assistance requested. The project sponsor will also be responsible for preparing the terms of reference of the study. The project sponsor or the BECC, as determined by the NADB, will manage the contract in accordance with the terms of reference approved by the NADB.

COMMUNITY ADJUSTMENT AND INVESTMENT PROGRAMS (CAIP)

As outlined in the agreement between the United States and Mexico that established the NADB, 10 percent of the bank's capital is designated for community adjustment and investment projects in the two countries. Each country has independently developed a program within this framework to address its specific needs. Unlike other programs of the NADB, the community adjustment and investment programs are not limited to projects located within the 100 km. border zone in each country.

The U.S. Community Adjustment and Investment Program (USCAIP) is designed to assist the private sector in creating new jobs and preserving existing jobs at risk of being lost in communities that have experienced the greatest difficulty in adjusting to disruptions of their economies attributable to NAFTA. The USCAIP has a loan and a grant program which are operated independently. To learn more about this program, please visit NADB's website and click on Programs and Services.

The Mexican program, entitled Programa Complementario de Apoyo a Comunidades y Empresas, is administered by the Mexican federal development bank, Banco Nacional de Obras y Servicios Públicos, S.N.C. (Banobras). The program is designed to support basic infrastructure development throughout Mexico, as well as help communities and businesses benefit from NAFTA.

To learn more about the Mexican program, contact the state office of Banobras in your area.

UTILITY MANAGEMENT INSTITUTE (UMI)

NADB created its Institutional Development Cooperation Program (IDP) for the purpose of enhancing the managerial, financial and leadership capabilities necessary to operate a successful utility in the modern U.S.-Mexico border economy. As an integral part of that effort, the Utility Management Institute (UMI) offers an on-going and focused professional development program for utility managers and their staffs in the border region.

The curriculum is highly practical, focusing on day-to-day issues faced by border utility professionals. Module presentations emphasize interaction among participants with the goal of developing a binational network of border utility professionals able to consult with one another as issues arise. Instruction is provided in both English and Spanish. For additional information including upcoming schedules of upcoming module presentations, please visit NADB's website and click on Programs and Services.

